

Message Text

UNCLASSIFIED

PAGE 01 LONDON 13474 01 OF 03 162003Z

53

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 USIA-15 L-03 H-03 PA-04 PRS-01

SPC-03 AID-20 EB-11 NSC-10 RSC-01 CIEP-02 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 IO-14 NEA-10 ABF-01

FSE-00 DRC-01 /205 W

----- 016164

R 161940Z NOV 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5653

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

TREASURY DEPT WASHDC

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 13474

DEPARTMENT ALSO PASS FRB

TREASURY FOR F. LISLE WIDMAN

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 16

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 13474 01 OF 03 162003Z

BEGIN SUMMARY: A RECORD MONTHLY TRADE DEFICIT OF 298

MILLION POUNDS FOR OCTOBER WAS ANNOUNCED ON TUESDAY FOLLOWED BY A TIGHTENING OF MONETARY POLICY WHICH INCLUDED A BOOST IN THE MINIMUM LENDING RATE TO A RECORD 13 PERCENT AND A FURTHER TWO PERCENT CALL FOR SPECIAL DEPOSITS. THE CLEARING BANKS ALSO RAISED THEIR BASE LENDING RATE TO 13 PERCENT. THIS WAS FOLLOWED BY HEAVY SELLING ON THE STOCK MARKET AND GOVERNMENT SECURITIES HAD THEIR WORST DAY SINCE WORLD WAR II. STERLING ESCAPED RELATIVELY UNSCATHED. TUESDAY ALSO SAW A GOVERNMENT DECLARATION OF A STATE OF EMERGENCY TO MEET FUEL PROBLEMS EXACERBATED BY INDUSTRIAL ACTION BOTH BY COAL MINERS AND POWER STATION ENGINEERS. ON WEDNESDAY, GOLD DROPPED TO \$90.00 IN RESPONSE TO THE ABOLITION OF THE TWO-TIER MARKET. FIGURES PUBLISHED THIS WEEK SHOW INDUSTRIAL PRODUCTION RISING AND GNP GROWTH SLOWING IN LINE WITH THE GOVERNMENT'S ECONOMIC STRATEGY. UNFORTUNATELY WHOLESALE PRICES CONTINUED TO RISE RAPIDLY. ON THURSDAY BOTH THE PRIME MINISTER AND THE CHANCELLOR RULED OUT AN AUTUMN BUDGET. END SUMMARY.

1. IN OCTOBER, THE U.K. RECORDED A RECORD VISIBLE TRADE DEFICIT OF 298 MILLION POUNDS (S.A.) WITH EXPORTS OF 1008 MILLION POUNDS (F.O.B., S.A., B/P BASIS) AND RECORD IMPORTS OF 1306 MILLION POUNDS (F.O.B., S.A., B/P BASIS). THE IMPORT FIGURE SHOULD PROBABLY BE 75 MILLION POUNDS HIGHER BRINGING THE DEFICIT UP TO ABOUT 370 MILLION POUNDS SINCE TWO WEEKS' IMPORTS THROUGH HEATHROW AIRPORT WENT UNRECORDED BECAUSE OF A COMPUTER STAFF STRIKE. THE BALANCE ON INVISIBLE TRADE WAS ON THE ORDER OF A 65 MILLION POUNDS SURPLUS. THUS, THE CURRENT ACCOUNT WAS IN DEFICIT BY BETWEEN 233 MILLION POUNDS AND 305 MILLION POUNDS. FOR FURTHER DETAILS SEE LONDON 13301.

2. TO PROTECT THE ECONOMY IN GENERAL AND THE EXCHANGE RATE IN PARTICULAR THE BANK OF ENGLAND, ON TUESDAY, INCREASED THE MINIMUM LENDING RATE FROM 11-1/4 PERCENT TO 13 PERCENT AND CALLED FOR ADDITIONAL SPECIAL DEPOSITS OF TWO PERCENT FROM BANKS AND DEPOSIT-TAKING FINANCE HOUSES. THIS CALL FOR SPECIAL DEPOSITS WILL REMOVE AN ESTIMATED 600 MILLION POUNDS FROM THE BANKING SYSTEM AND WILL BE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 13474 01 OF 03 162003Z

COLLECTED IN 1/2 PERCENT TRanches OVER THE PERIOD OF NOVEMBER 28 TO JANUARY 2, 1974.

3. ALL THE LONDON CLEARING BANKS FOLLOWED THE BANK OF ENGLAND ACTION BY RAISING THEIR BASE LENDING RATES FROM 11 PERCENT TO 13 PERCENT WITH THE BANK'S ENCOURAGEMENT. COSTS OF BORROWING WILL RANGE FROM 14 TO 18 PERCENT AND MONEY MARKET RATES ROSE TO NEARLY 15 PERCENT ON TUESDAY.

THERE WAS ALSO HEAVY SELLING ON THE LONDON STOCK EXCHANGE WITH ORDINARY SHARES, AS MEASURED BY THE FINANCIAL TIMES INDEX, FALLING 17.4 POINTS TO 405.5, JUST ABOVE THE LOW POINT FOR THE YEAR. THE MARKET HAS REMAINED NERVOUS AND FELL FURTHER TO CLOSE AT 397.1 ON THURSDAY (LOWEST LEVEL SINCE AUGUST 1971) AMID RUMOURS THAT A MINI-BUDGET WAS GOING TO BE ANNOUNCED. ON TUESDAY GILT-EDGED SECURITIES ALSO SUFFERED THEIR WORST SET-BACK IN A SINGLE DAY'S TRADING SINCE THE SECOND WORLD WAR. THE MARKET RECOVERED ON THURSDAY ON HOPES THAT FRESH GOVERNMENT STEPS TO DEAL WITH INFLATION WOULD SOON BE ANNOUNCED.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 13474 02 OF 03 162002Z

53

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 L-03 H-03 PA-04 PRS-01 USIA-15

SPC-03 AID-20 EB-11 NSC-10 RSC-01 CIEP-02 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 IO-14 NEA-10 ABF-01

FSE-00 DRC-01 /205 W

----- 016163

R 161940Z NOV 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5654

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS
USMISSION OECD PARIS
TREASURY DEPT WASHDC
USDOC WASHDC

UNCLAS SECTION 02 OF 03 LONDON 13474

4. STERLING CLOSED ON TUESDAY (NOV. 13) AT \$2.3925, UP 45 POINTS FROM THE PREVIOUS DAY'S CLOSE. IT FELL BACK AGAINST THE DOLLAR ON THURSDAY (NOV. 15) TO CLOSE AT \$2.3870, DOWN 317 POINTS FROM LAST THURSDAY'S CLOSE. WHILE STERLING HAS FALLEN SOME 0.23 PERCENT IN TERMS OF THE DOLLAR FROM TUESDAY'S LEVEL, MUCH OF THIS IS DUE TO STRENGTHENING OF THE DOLLAR IN ANTICIPATION OF UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 13474 02 OF 03 162002Z

GOOD U.S. THIRD QUARTER BALANCE OF PAYMENTS FIGURES. IN FACT, THE TRADE-WEIGHTED DEPRECIATION OF STERLING NARROWED TO 16.95 PERCENT ON TUESDAY, NOVEMBER 13. IT WAS 17.72 PERCENT ON THURSDAY, COMPARED TO 17.30 PERCENT LAST THURSDAY. THIS IS STILL WELL BELOW THE 18 AND 19 PERCENT LEVELS OF SEVERAL WEEKS AGO.

5. ON TUESDAY, NOVEMBER 13, THE GOVERNMENT CALLED A STATE OF EMERGENCY TO MEET ITS FUEL PROBLEMS. FOR DETAILS SEE LONDON 13361.

6. THE PRICE OF GOLD FELL \$6.75 ON WEDNESDAY IN REACTION TO THE TERMINATION OF THE 1968 WASHINGTON AGREE-MENT ON GOLD. THE PRICE ROSE BY \$1 ON THURSDAY TO CLOSE AT \$91.00, DOWN \$7.00 FROM LAST THURSDAY'S CLOSE.

7. THE SEPTEMBER INDEX OF INDUSTRIAL PRODUCTION ROSE TO 111.9 FROM 111.1 IN AUGUST (1970100); FOR MANUFACTURING ALONE THE INDEX ROSE TO 112.8 COMPARED TO 112.0 IN AUGUST. THESE FIGURES POINT TO A CONTINUED UPWARD TREND IN TOTAL INDUSTRIAL OUTPUT WITH MANUFACTURING OUTPUT AS THE SOURCE OF GROWTH. THE RATE OF GROWTH IN INDUSTRIAL PRODUCTION AT AN ANNUAL RATE WAS 4 PERCENT IN THE THIRD QUARTER WHICH IS COMPATIBLE WITH THE GOVERNMENT'S GOAL OF 3-1/2 PERCENT GROWTH.

8. GROSS DOMESTIC PRODUCT (BASED ON S.A., OUTPUT DATA) GREW AT AN ANNUAL RATE OF 4.4 PERCENT DURING THE THIRD QUARTER, WHEN COMPARED TO THE SECOND QUARTER 1973. ON AN INDEX BASIS GDP FOR THE THIRD QUARTER WAS 109.8 COMPARED TO 108.6 IN THE SECOND QUARTER AND 109.0 IN THE FIRST QUARTER ON OUTPUT BASIS (1970100, S.A.). THIS DATA, ALONG WITH CONSUMER SPENDING FIGURES INDICATES THAT GROWTH IN THE ECONOMY IS SLOWING TO THE REGION OF

3-1/2 PERCENT A YEAR.

9. THE WHOLE SALE PRICE INDEX (I.E., DOMESTIC SALES OF MANUFACTURED GOODS) ROSE BY 1-1/2 PERCENT IN OCTOBER WHICH CORRESPONDS TO AN ANNUAL RATE OF 18 PERCENT. THIS IS THE LARGEST MONTHLY INCREASE SINCE THE GOVERNMENT WAGE AND PRICE PROGRAM CAME INTO EFFECT LAST NOVEMBER.
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 13474 02 OF 03 162002Z

THE PRICE INDEX ROSE TO 128.U FOR OCTOBER COMPARED TO 125.9 IN SEPTEMBER (1970100). THE PRICE INDEX FOR BASIC MATERIALS AND FUEL ROSE 4-1/2 MAKING IT 42 PERCENT HIGHER THAN OCTOBER, 1972. MOST OF THE OCTOBER RISE IS ATTRIBUTABLE TO HIGHER PRICES FOR CRUDE OIL.

10. THE PRIME MINISTER IN A TELEVISION INTERVIEW AND THE CHANCELLOR IN A SPEECH BEFORE THE AMERICAN BANKS ASSOCIATION IN LONDON REITERATED THE GOVERNMENT'S COMMITMENT TO ITS PRESENT ECONOMIC STRATEGY AND SAID THERE WOULD BE NO AUTUMN BUDGET. THEY BOTH DEFENDED THE MONETARY MEASURES INTRODUCED ON TUESDAY AND APPEALED TO THE NATION TO SEIZE THE OPPORTUNITIES NOW AVAILABLE TO IT TO SUSTAIN GROWTH, INCREASE PRODUCTION AND RAISE EXPORTS. FOR DETAILS SEE SEPTTEL.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 13474 03 OF 03 162007Z

53

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 L-03 H-03 PA-04 PRS-01 USIA-15

SPC-03 AID-20 EB-11 NSC-10 RSC-01 CIEP-02 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 IO-14 NEA-10 ABF-01

FSE-00 DRC-01 /205 W

----- 016236

R 161940Z NOV 73

FM AMEMBASSY LONDON
 TO SECSTATE WASHDC 5655
 INFO AMEMBASSY BERN
 AMEMBASSY BONN
 AMEMBASSY BRUSSELS
 AMEMBASSY COPENHAGEN
 AMEMBASSY DUBLIN
 AMEMBASSY LUXEMBOURG
 AMEMBASSY PARIS
 AMEMBASSY ROME
 AMEMBASSY STOCKHOLM
 AMEMBASSY THE HAGUE
 AMEMBASSY TOKYO
 USMISSION EC BRUSSELS
 USMISSION OECD PARIS
 TREASURY DEPT WASHDC
 USDOC WASHDC

UNCLAS SECTION 03 OF 03 LONDON 13474

11. THE FORWARD DISCOUNT ON STERLING WIDENED
 SHARPLY ON TUESDAY (NOV. 13) AND AGAIN ON
 WEDNESDAY (NOV. 14) TO REACH 1.32-1/2 CENTS AT ONE MONTH,
 3.60 CENTS AT 3 MONTHS AND 6.15 CENTS AT 6 MONTHS. THE
 DISCOUNT NARROWED SHARPLY ON THURSDAY.

11/8	11/15	CHANGE
------	-------	--------

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 13474 03 OF 03 162007Z

1 MONTH	0.59-1/2	0.80	UP U.20-1/2
3 MONTHS	2.18-1/2	3.10	UP 0.91-1/2
6 MONTHS	4.56-1/2	6.15	UP 1.58-1/2

(ALL FIGURES IN CENTS)

12. LOCAL AUTHORITY DEPOSIT RATES JUMPED ON TUESDAY
 (NOV. 13) IN RESPONSE TO THE RAISING OF THE MINIMUM
 LENDING RATES AND BASE LENDING RATES. THE UPWARD TREND
 CONTINUED OVER THE REST OF THE WEEK.

11/8	11/15	CHANGE
------	-------	--------

1 MONTH	11-3/4	14-1/16	UP 2-3/16
3 MONTHS	12-7/8	14-5/8	UP 1-3/4
6 MONTHS	12-11/16	14-3/4	UP 2-1/16

13. EURODOLLAR RATES CONTINUED TO MOVE IN A MIXED
 PATTERN BUT GENERALLY UPWARD.

	11/8	11/15	CHANGE
1 MONTH	9-1/2	9-7/8	UP 3/8
3 MONTHS	9-1/2	10	UP 1/2
6 MONTHS	9-1/4	9-3/4	UP 1/2

14. THE MINIMUM LENDING RATE WAS RAISED FROM 11-1/2 PERCENT TO 13 PERCENT ON TUESDAY, NOVEMBER 13, THE HIGHEST LEVEL EVER.

ANNENBERG

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 16 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON13474
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731129/aaaaavgh.tel
Line Count: 341
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: hilburpw
Review Comment: n/a
Review Content Flags:
Review Date: 08 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Aug-2001 by maustmc>; APPROVED <21-Aug-2001 by hilburpw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 16 UNCLASSIFIED
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005